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Mitchell, Charles E.

Business today and tomorrow

[Atlantic City, N.J.]

[1920]

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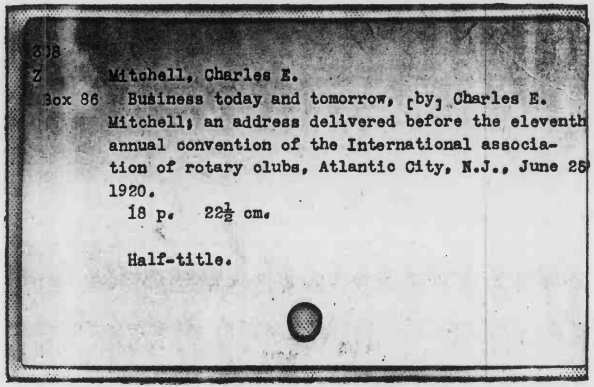

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Box 86 Business today and tomorrow, [by] Charles E. Mitchell; an address delivered before the eleventh annual convention of the International association of rotary clubs, Atlantic City, N.J., June 28 1920.
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BUSINESS
TODAY AND TOMORROW

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TODAY AND TOMORROW

CHARLES E. MITCHELL
President
THE NATIONAL CITY COMPANY
New York

AN ADDRESS DELIVERED BEFORE THE ELEVENTH ANNUAL CONVENTION OF THE INTERNATIONAL ASSOCIATION OF ROTARY CLUBS, ATLANTIC CITY, N. J. JUNE 25, 1920

27 July 1920 Inv

BUSINESS
TODAY AND TOMORROW

What is the power, the wonderful force that has exerted itself upon thousands of busy American men of affairs to leave their homes and the immediate call and pressure of their personal business to come to this Far Eastern corner of the country for this week of Convention? The few days by the seaside has its call, of course. The making and renewal of pleasant acquaintance is not an element to be forgotten. The rest from detail of office, factory or salesroom is appealing. But after all, there should be and I believe there is, a far more serious and deep-seated magnetic power that has drawn us here.

Down through the centuries the commercial progress of mankind can be ascribed more directly to the power of co-operation than to any other force. Instinctively then, though perhaps unconsciously, I feel you have obeyed primarily the call of self interest in coming here for interchange of views and to seek profitable means of more intensive co-operation. That is the motive power your organization itself as well as this remarkable conclave spells to me, that greatest of all human powers,—the essence of co-operative effort—and I deeply appreciate the invitation to take part in your deliberations.

Let us contemplate for a moment what part co-operative action has played in human commercial development.

I will not ask you to go so far as to become a subscriber to the Darwinian theory of evolution, but I will ask you to agree, and I think there can be no objection, that you and I are sprung from prehistoric grandfathers who lived leagues and leagues apart in caves or in treetop huts, and who, fashioning their rough spears and tackle, hunted the forests and fished the streams

and thus provided for themselves and for our prehistoric grandmothers and their children the protection of the bodies against the elements and the food to sustain life, and all without other resource than the strength of their muscles and the intuition and craft of their minds.

It is a long, long step that we must take from such contemplation to the conditions of to-day when, from the shoes, linen, silk, woolens and fabrics that protect our bodies, to the food that is served at our tables, there is scarcely one thing that we individually produce or would know how to produce, if we were to be thrown upon our own resources. Raw materials for these things have been gathered from the far ends of the earth; they have been transported by highly-developed forms of power thousands and thousands of miles and have been fabricated by most complex and intricate processes, and have been made available to us with such facility as to rob us of any wonderment in acquirement. The bridge between these marked stages is the co-operative spirit of mankind—a spirit that has found its development solely in selfish interest.

Co-Operation Ever a Factor

From the time that one of our pre-historic grandfathers found that his particular abilities or the advantages of his particular surroundings enabled him to hunt, or fish, or produce from the soil, or mould with his hands, some necessity that a far-distant neighbor could produce with less facility, and that he could exchange that thing for some other which that neighbor could produce with greater facility,—down through the centuries when the same differentiation of labor and barter took place through tribal communities,—and down again through the days of up-building of hamlets when further differentiation of labor and trade brought refinement in product and increasing interchange of goods,—down through the later years when larger communities, cities and states broadened and extended that development,—and even down to to-day when the

whole world has been opened wide to such differentiation and interchange,—all spelling the progress of the ages with a higher civilization and an improving condition of trade,—co-operation has been the one and essential factor.

The more intense, the more universal such co-operation in any period, the greater the degree of progress; the less the co-operative spirit and the greater the degree of friction, the greater the brake to progress and the slower the development of the individual. Show me a community where its merchants are co-operating not only to the end that there may be local harmony and happy competition, but to the broader end that such goods as are produced and are sent out to the other communities are quality goods manufactured and sold under the highest standards of business ethics, and I will show you a community where the individual merchant is prosperous and happy; a community which is enlarging itself and gaining a prestige that reacts favorably upon every manufacturer and merchant therein.

Self-Contained Community or Nation Doomed

Show me a community in which there is class friction or where the merchants are satisfied to have the community self-contained, confining its purchases only to what is produced within its own confines, yet hoping withal to send its excess products—be they good or bad —beyond the confines of such community, bringing back moneys therefor which shall be respent locally, and I will show you an ingrowing community,—one whose doom is written regardless of how great the natural advantages of that community may be. Paint these pictures with a larger brush and make them applicable to states or nations, and like deductions may be drawn.

Self-interest, which finds its outlet in such co-operative effort as is epitomized in this very Convention, is the most encouraging sign that can be seen in American commerce and business today, and provided the

seeds of thought that are sown in the rich and fertile ground of these assemblies are selected with serious care, the harvest of good results will be a bounteous one. The ear of those in commanding position in this country, all the way from the leader of the labor union to the man who sits in the legislative halls of Washington, is always at the ground listening for what the people of this or that part of the country may be saying on this or that subject. You, recognized business men in your communities, have it in your power to mould the thought of your communities, and it is important to the self-interest of each one of you, as it is to me, that your leadership in thought be sound and constructive. It is my hope that in what I have to say, I may impress the importance of sane co-operative action in matters pertaining to the business of today and tomorrow.

New Problems Ushered in by Mars

A new era in American business and finance began with the opening of the European War. Almost with the first shot that was fired, our factories received orders beyond their productive capacity, our railroads were called upon to carry an unusual burden of traffic from raw material source to factory and from factory to factory and finally to seaboard. Our financial resources were forced to extend themselves to repurchase American securities which had long been held abroad and now returned for sale, rapidly and in volume, that credits might be established to meet European needs. Our banks began to feel the strain of added commercial requirements.

The investment market was called upon to float the securities of corporations and of foreign governments in amounts that staggered the imagination. An exodus of foreign labor, answering the call of their colors, depleted the ranks of our labor, the demand for which promptly exceeded the supply, resulting in sharp advances of wages. Profits began to flow to our people that gave them a taste for improved living conditions

and luxuries that added to already excessive demand for an already inadequate supply of products from field and factory, the competition for which brought progressive price increase. Inflation on a scale never before known in our history had set in.

Our own entry into the war with the consequent colossal government expenditures covered by popular loans in incomprehensible amounts, the further exodus of labor that entered our army and navy, the added demand for goods far and away beyond possible production, and the necessary imposition of new and burdensome taxation only increased the difficulties of the situation and added to inflation to a duly dangerous degree.

The job that America did in those trying days was on the whole most creditable, but in passing I want to ask if you do not agree that in those things that we did well, true co-operative effort was the cause, and in those things where we fell down on our job the real cause was lack of co-operation, disregard of the fair course of procedure, resulting in fricture between labor and capital and between government and corporate bodies.

Economic Evils Follow War

The fact that the United States was in the war itself, that its citizens were sacrificing their very lives for victory to our arms, inspired co-operation, but when the war ceased, that inspiration lost its potency. A taste for ever-increasing profits and wages and a growing appetite of every class for more and more of the comforts and luxuries of life became apparent. With the satisfaction of these tastes and appetites, there occurred an ever-increasing unwillingness to exert and labor as formerly. An increasing personal demand for things and a decreasing inclination to produce things has brought, as it was bound to bring, nothing but bitterness and unrest in its wake. Individual greed supplanting sound, fair co-operative effort, endangers our present

situation. The police power of the natural economic law which precludes indefinite extension of inflation and the necessity for work—hard work—if demand is to be satisfied by supply is now in evidence, and that force is naturally being resented.

An increase in the general commodity price list of over 130% above pre-war levels has more than doubled the value of an equal quantity of inventory at manufacture plants and on merchants' shelves. A breakdown in the efficient operation of the 250,000 miles of our transportation system, resulting in part from unfair treatment of our railroads by the people whom they serve and in part by demands of labor throughout the country but especially at our Atlantic ports,—this latter situation one that is congesting freight far back into the middle west,—is actually necessitating the carrying in process of transportation of a volume of goods by merchants and manufacturers which in some cases I know to be the equivalent of the quantity carried in plant and salesroom. In such instances, even with no greater production, the carrying of an adequate inventory has resulted in an inventory book account four times the normal.

The demand for commercial accommodation at bank thus enormously increased has been added to by borrowing demands from individuals who, engulfed in the whirl of spending, have failed adequately to save and must still have help to carry their Liberty bonds purchased under patriotic inspiration. Again they have been increased by enforced Government borrowings to meet expenditures authorized by a lavishly extravagant Congress.

The Period of Inflation Has Ended

The burden upon our banking system became so great six months ago that it became obvious that even our most elastic federal reserve system could not bear any added strain without an indefinite suspension of minimum reserve requirements and without being

content to lean on the slender and dangerous reed of an unsupported paper currency,—a proposition that could not be countenanced. Inflation had reached its peak, the danger flag was out, the pressure of the economic law was making itself felt.

Indications of what is happening in enforcements that will tend toward deflation, are apparent. The New York Reserve Bank rediscount rate has increased within six months from 4½% to 7%. Borrowing rates on prime commercial paper are 7¾% to 8% today compared with a ten-year pre-war average of 4⅞%. While there is comparatively little evidence of deflation as yet, there is abundant evidence that inflation has been halted.

Transportation and Labor Problems

Ordinarily, periods of inflation end in panic and predictions of panic have been rather freely made, but by virtue of such free prediction and widespread preparations therefor, it is a safe hope that a panic will fail to appear. It is, after all, merely a question as to whether or not all classes of American commerce are willing to co-operate to bring about sane, slow but steady deflation or whether resentment against the inevitable, accompanied by bitter attempts of one class or another to avoid for itself the burden and sorrows of deflation by shifting processes, which must ultimately be futile in effect, will force the old economic law to take us all as a unit by the nape of the neck and shake us through panic to a proper recognition of and submission to her inexorable requirements.

The country needs sound thinking and co-operative action from the leaders of all classes in America. Every man at this Convention is adversely affected if the railroads are not given rates promptly which are adequate to rehabilitate their credit and permit them to supply sufficient equipment and terminal facilities to properly handle the country's freight. Every man, whether he be from New York or Chicago or San Francisco, is

adversely affected by lack of co-operation of labor in Atlantic ports which results in such serious backing up and congestion of freight half across the continent. Every man is adversely affected if, because of class antagonism and lack of co-operative willingness, attempt is made to throw the immediate burden of taxation upon "excess profits," so called, of corporations and upon individuals of large income, for he who thinks, may know that taxation must in the end be borne by the consumer and any reluctance to apply taxation thus directly, will inevitably result in a doubling of the tax again and again to him, the consumer who ultimately pays it.

All Are Affected by Trend of Foreign Trade

Every man, whether he makes his home in the agricultural districts of the far west or in such industrial centers as Providence, R. I., or Bridgeport, Conn., is affected by the means by which labor is to be transferred from the factory to the field, to the end that our food production may be ample for the nation's needs. Every man is affected by what is to be done regarding labor efficiency in every other man's center, and what is to be done regarding immigration which has dropped from an average monthly arrival of 115,000 in 1913 to an average monthly arrival of 19,000 for the past year. These are all problems on which the country demands co-operative thought and endeavor to reach the right and logical answers.

But looking into the future, perhaps as great and even more far-reaching in importance to each and every man at this Convention, and I sincerely mean to each one personally, is the question of our foreign trade and the attitude of American citizens generally thereto. It is perfectly natural, and therefore, I am prepared to believe, that the member of the Rotary Organization who is perhaps a grocery jobber at Des Moines or a boot and shoe dealer serving a local trade in Minneapolis or a department store manager in Tucson con-

siders the subject of foreign trade as an abstract question in which he has no direct interest and that his personal pocketbook is unaffected by it. Now that is a very real mistake. I go so far as to declare that the prosperity of each of you personally is to be affected by the trend of foreign trade.

One is sure to hear the contention made, and on the surface a plausible argument may be drawn, that the vast resources of the United States make us a self-contained country, that the products of our fields and of our factories should turn to supply only the demand of our own citizens, that prosperity is assured to all if we completely eliminate foreign trade, and that by thus divorcing ourselves from world affairs, we will be able to hold ourselves aloof from entangling alliances, political as well as commercial, and will live happily ever after.

A very pretty picture indeed!

Its counterpart is China with the trade wall about it and its total absence of progressive development; or Mexico,—a country with the very richest of natural resources but with an isolation that has developed ingrown thought akin to barbarism,—both, countries that have refused nationally to co-operate broadly for the greater good of the world. We with about ten per cent. of the world's population and producing fifty per cent. of the products which the world consumes cannot build a wall about ourselves nor will the progressive and naturally co-operative spirit of our people permit it.

The Affect of Export Trade in the U. S.

But there are more practical reasons still. I do not contend that, given time for revision of the character of our agricultural planting and development, given time for the turning of much of our factory equipment to the making of other products, we could not be self-contained, but such a process would take many years and would involve losses and waste incalculable.

Let us assume an immediate stoppage of foreign

trade. How would you from Des Moines, Minneapolis or Tucson be affected? I will trace one article of export to find the answer. We produce roughly, 12,000,000 bales of cotton annually. We have in the United States spindles to work but half that many bales. The balance ordinarily moves in export trade. Assume a half to exports. The surplus cotton rots in the fields or it piles up in the warehouses or on the plantations. The banks not only in the south but at every financial center become choked with cotton paper that cannot be liquidated. The cotton sections of the south become bankrupt or in any event activity ceases; planting declines, labor fails to find employment, the buying of commodities of a basic as well as of a luxury nature, ceases. The demand of the south for everything from shoes and flour to automobiles and pianos is cut down or cut off entirely. Lynn, Mass., Minneapolis, Minn., Detroit, Mich., and Philadelphia and New York are directly affected by the falling off in orders for these particular commodities. As business slows down, they must cut down their demands upon other centers and those centers must in turn cut down demands on others.

Will your city be affected by it, Mr. Man from Minneapolis, Des Moines or Tucson? Your city is not walled about in trade. Yours is a city trading broadly with others. Your very presence here assures it. Well then, would your personal purse be affected by it? Of course, it would,—you individually are directly interested to see to it that the south has export demand for all the cotton it can produce. The south must be prosperous if you personally are to prosper to the full degree, and the south can only prosper as somewhere in some other part of the world there is a prosperity that sets up a real demand for American cotton.

Are you interested then in the prosperity of foreign countries? Yes—you personally—distinctly. But I am beyond the call of my argument. It should have stopped with the proposition that you are affected by export trade. Actually, however, we cannot stop there.

The International Balance Sheet

I need not call the attention of men trained in business as you are, to the fact that every account must find a balancing item. The word "trade" cannot contemplate "sales" only,—it must also include "purchases." The sale may be cotton, the purchase may be wool or rubber or it may be our own promissory note given long ago, or it may be the promissory note of the buyer or the buyer's country's obligation, but in any event the balance must be struck by the amount of the purchases equalling the amount of the sales. Now that must mean that if the very desirable export business is to be ours, we must foster imports and we must co-operate to the end that our countrymen may be so cosmopolitan in their view of credits that they will buy freely of the obligations of foreign nations and their commercial interests for investment account. It must mean that Mr. Man from Denver, Minneapolis and Tucson must co-operate with Mr. New Yorker and Mr. Philadelphian not only in seeing that their representatives in Washington skilfully ease the barriers to foreign trade, but that the ships that leave our ports are loaded with quality goods, honestly made, fairly represented, and accurately accounted for.

American goods and American business methods must be popularized abroad, and any tendency to use the foreign market as a dumping ground for occasional excess production or for inferior product unsalable at home, cannot fail to take away the confidence of foreign buyers seeking permanent and high-grade trade relationships and make more difficult the progress of the American manufacturer and merchant who is entering the field with quality goods and the hope of establishing regularity of demand based on the highest of business ethics.

Let us not be fearful of being swamped with imports,—imports that may have been produced perhaps with cheaper labor than ours. No country will in the long run export more than it imports or make in the

aggregate more than its own people consume. If wages are lower than ours in some country sending goods to our shores, you may be sure that the machine equipment of that country is small and its productive capacity small. The demand for commodities in that country will keep pace with any productive or exporting capacity they can reach. Their own imports will grow with their exports and we in turn should find the way to make our exports at least a share of their imports. The safety valve is the fact that the balance of sales must be struck against purchases with others just as it must be with us.

U. S. Becomes Creditor Country

During the ten years prior to the European war, the annual balance of trade in favor of the United States on merchandise account was about $500,000,000 annually. This merchandise balance or so-called "visible balance," was approximately offset by interest and dividends on American securities held abroad, by freight payments to foreign ships, by expenditures of American tourists abroad, by remittances of immigrants to their families at home, and by insurance premiums paid by Americans to foreign insurance companies. Such offsetting items are known as the "invisible balance,"—invisible because it does not appear in the custom house records and is never accurately known.

The war has distributed this state of equilibrium. American securities formerly held abroad have been repurchased, and we have made loans running to an aggregate of about $13,000,000,000 on which interest must now be paid to us. The pre-war interest and dividend debit in the invisible balance was $160,000,000 a year, while the credit balance is now $122,000.000 on private capital interest account alone and will in 1923 be increased to $740,000,000 by interest on public moneys loaned abroad, our government having agreed to fund such interest until that year. I will not bore you with statistics. Suffice it to say that by 1923 we will probably

have a net credit invisible balance in our favor of some $350,000,000 instead of the pre-war debit of over $500,000,000. This means that even if our export merchandise trade is no larger then than in pre-war days, but continues as large, imports or the acceptance of foreign credits for investment must increase by $850,000,000 annually, if the trade account is to be balanced.

A Plea for World Trade

If you agree, however, that it is to our advantage to always increase our export trade, using to the full for the out-carriage of American products, the great fleet of American merchant marine which the days of the war and since have given us, then realizing always that the balance must be struck, we must look forward to and foster increasing imports from foreign lands.

Let us not be so narrow-minded as to adopt or foster a policy of exclusion. Rather let us open wide the doors, believing that it is in our self-interest that that which can be best and most economically produced in one corner of the Globe to be there produced and delivered for our consumption. With the God-given natural resources of the United States and the aptitudes of her people, there should always be produced a character of goods at a price that will be in large demand beyond her confines.

We have indeed a lesson to learn in the development of world trade, a trade that must ever be balanced by goods and accounts and investments. It is a lesson in intensive co-operation. A co-ordination of the action of government, finance and commerce must be established —a co-ordination such as is evident in the progressive development of the heretofore leading countries in world trade, where finance has always been the handmaiden of commerce, and government has stood by as a good mother, ever fostering and protecting.

The Importance of Our Diplomatic Service

Regardless of the results of the coming election or the platform on which the winning party steps to victory at the polls, the time has come when American businessmen must unite in demanding of the new administration the firm establishment of a future policy of protection to American life and property on foreign soil and a revolution of the character of the diplomatic and consular service. The men selected for that service are the samples of Americanism set in the international show window, indicating what may be looked for in the man at home and they should be selected with all the care that each one of you is selected as representative of the standards of your trade or profession.

Our prehistoric grandfathers from a stage of perfect isolation found it to their self-interest to co-operate commercially, and from that moment co-operation has been the mainspring of progress. The ills of business today are the results largely of lack of it. They can be cured by it. The possibilities of business of the future will be markedly determined by the degree to which we are able to carry co-operation.

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